

Message Text

LIMITED OFFICIAL USE

PAGE 01 TEL AV 01917 01 OF 02 011332Z

44

ACTION NEA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 SAB-01 /082 W

----- 056173

R 011245Z APR 75

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 6119

LIMITED OFFICIAL USE SECTION 1 OF 2 TEL AVIV 1917

PASS AMBASSADOR KEATING

E O 11652: N/A

TAGS/ ECON, EAID, IS

SUBJECT: ISRAEL'S CONTINUING NEED FOR MASSIVE U.S.

FINANCIAL ASSISTANCE

1. BEGIN LIMITED OFFICIAL USE: BEGIN SUMMARY: PRESS ACCOUNTS OF FORTHCOMING OFFICIAL GOI FIVE-YEAR ECONOMIC FORECAST AND RECENT STATEMENTS BY GOVERNOR OF BANK OF ISRAEL AND ECONOMIC ADVISER TO MINISTER OF FINANCE ALL EMPHASIZED THAT ISRAEL'S HUGE CURRENT ACCOUNT DEFICIT IS MOST IMPORTANT ECONOMIC PROBLEM FACING STATE. WHILE ALL OBSERVERS RECOMMEND FURTHER MEASURES TO RESTRAIN PRIVATE CONSUMPTION AND INVESTMENT AND TO ENCOURAGE EXPORTS, GENERAL CONCLUSION IS THAT ISRAEL WILL CONTINUE TO DEPEND ON MASSIVE AMOUNTS OF U.S. ECONOMIC ASSISTANCE. END LIMITED OFFICIAL USE : END SUMMARY.

2. BEGIN UNCLASSIFIED. GOI'S OFFICIAL FIVE-YEAR ECONOMIC FORESCAST WILL BE PRESENTED TO KNESSET IN LATE APRIL AND WILL HIGHLIGHT ISRAEL'S NEED FOR MASSIVE U.S. ASSISTANCE THROUGH END OF DECADE, ACCORDING TO PRESS REPORT. ISRAEL'S PROJECTED CURRENT ACCOUNT DEFICIT OF APPROXIMATELY DOLS 3.3 BILLION FOR 1975 WILL
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TEL AV 01917 01 OF 02 011332Z

AMOUNT TO DOLS 2.5 BILLION IN 1979. GOI'S ECONOMIC PLANNING

AUTHORITY DIRECTOR SIMCHA LANDAU STATED THAT IN PAST, PRIVATE CONSUMPTION GREW RAPIDLY BECUASE OF LARGE INFLOW OF FOREIGN CAPITAL AND QUOTE WE ATE ALL THIS CAPITAL UP IN-STEAD OF LETTING IT ACCUMULATE IN FOREIGN EXCHANGE RESERVES UNQUOTE. PRACTICE OF ALLOWING CONSUMPTION TO INCREASE ALMOST AS FAST AS GNP NO LONGER FEASIBLE BECAUSE EVEN MOST OPTIMISTIC PROJECTIONS OF CAPITAL INFLOWS ARE THAT THEY WILL NOT BE SUFFICIENT TO MEET ANTYGHING BUT SMALL INCREASES IN LIVING STANDARDS. IMPLIATIONS ARE TWO-FOLD: (1) INCREASE TAXES IN ORDER TO SOAK UP INCREASED OUTPUT AND REDUCE CONSUMPTION IF SAVINGS DO NOT INCREASE: AND (2) PROSPECT OF HEAVY UNEMPLOYMENT IF CONSUMPTION IS NOT LIMITED. RESTRAINT OF DEMAND IS UNAVOIDABLE NECESSITY AND UNEMPLOYMENT AT 5 OR 5.5 PERCENT WILL OCCUR BECAUSE INCREASED DEMAND WOULD USE FOREIGN EXCHANGE RESERVES WHICH, IF EXHAUSTED, WOULD AUTOMATICALLY EXACERBATE UNEMPLOYMENT. LANDAU VIEWED EXPORTS AS ONLY BOOM SECTOR IN COMING FIVE YEARS AND REAL CHALLENGE WAS HOW TO INCREASE OUTPUT AND EXPORTS CONCOMITANTLY WITHOUT INCREASING REMUNERATION.

3. MOSHE SANBAR, GOERNOR OF BANK OF ISRAEL, ECHOED SIMILAR HOUGHTS IN RECENT PRESS INTERVIEW. ALTHOUGH FOREIGN EXCHANGE RESERVES HAD INCREASED BY DOLS 460 MILLION SINCE NOVEMBER DEVALUATION, ISRAEL'S FOREIGN DEBT WAS EXPECTED TO INCREASE BY OVER DOLS 1.5 BILLION BY END OF YEAR. SANBAR SAID THAT RESEVES GEW BECAUSE ISRAEL CONTINUED BORROWING, SOME FOREIGN EXCHNGE WAS REPATRIATED, PART OF ISRAEL'S NON-DOLLAR FOREIGN EXCHANGE HOLDINGS HAD RISEN AGAINST DOLLAR AND TRADE BALANCE HAD IMPROVED SLIGHTLY. SANBAR POINTED OUT THAT ISRAEL WAS STILL ENJOYING FULL EMPLOYMENT WHILE UNEMPLOYMENT WAS A READL PROBLEM IN U.S., GERMANY AND U.K. HOWEVER, ISRAEL'S CURRENT ACCOUNT DEFICIT IN 1975 WILL ALMOST EQUAL THAT OF 1974 AND ISRAEL HAD ASEKD U.S. FOR DOLS 2.5 BILLION TO COVER IT. IF ISRAEL SHOULD RECEIVE LESS ASSISTANCE THAN IT EXPECTS, THERE WILL BE A CHAIN REACTION FOR THERE IS AN IMPORT COMPONENT IN ALL ISRAELI MANUFACTURED GOODS. SANBAR PREDICTED THAT CUT OF DOLS 500 MILLION IN CAPITAL INFLOW WOULD CAUSE A DECREASE OF IL 8-9 BILLION (DOLS 1.3-1.5 BILLION) IN GNP. MOREOVER, IF ISRAEL OBTAINED ONLY DOLS 2 BILLION FROM U.S., IT WOULD IN TROUBLE AND HAVE TO REDUCE ARMS IMPORTS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TEL AV 01917 01 OF 02 011332Z

4. SANBAR POINTED OUT THAT PRECENTLY ANNOUNCED PAYROLL TAX WOULD BE INFLATIONARY ONLY IF THERE WERE EXCESS DEMAND IN THE ECONOMY AND THAT IF THERE WERE INDEED EXCESS DEMAND, PRICE LEVEL WOULD RISE, EVEN IN ABSENCE OF PAYROLL TAX. MOREOVER, ONLY WAY FOR GOVT TO OVERSPEND IS FOR IT TO PRINT MONEY WHICH INFLATED DEMAND WITH PREDICTABLE NEGATIVE EFFECTS ON EXPORT GROWTH. SANBAR ENCOURAGED BY FINMIN RABINOWITZ'S FISCAL POLICIES. CLASSICAL ECONOMIC REMEDIES

WOULD HAVE REQUIRED A DOUBLING OF TAX INCREASES WHICH WERE
RECENTLY PROPOSED. NONETHELESS, SANBAR BELIEVES GOI'S
GRADUALIST APPROACH TO REDUCING OVEREMPLOYMENT GENERALLY
SOUND AND AGREES WITH GOI PROPENSITY TO ERR IN DIRECTION
OF INFLATION RATHER THAN UNEMPLOYMENT. GOI CURRENT ACCOUNT
DEFICIT IS SO VAST, IN SANBAR'S OPINION, THAT NOT ONLY
PRIVATE CONSUMPTION BUT EVEN INVESTMENT MUST BE REDUCED.
NEED TO INCREASE EXPORTS IS PARAMOUNT AND INVESTMENTS IN
EXPORT INDUSTRY MUST BE INCREASED DESPITE INFLATIONARY
RAMIFICATIONS.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 TEL AV 01917 02 OF 02 011342Z

44

ACTION NEA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 SAB-01 /082 W

----- 056263

R 011245Z APR 75

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 6120

LIMITED OFFICIAL USE SECTION 2 OF 2 TEL AVIV 1917

5. EPHRAIM DAVRAT, ECONOMIC ADVISER, MINISTRY OF FINANCE,
IN RECENT PUBLIC STATEMENTS MADE SAME POINT: ISRAEL'S
REAL ECONOMIC PROBLEM WAS ITS CURRENT ACCOUNT DEFICIT AND THERE
WERE NO MEANS TOO DRASTIC TO SOLVE IT BECAUSE OTHERWISE UNEMPLOY-
MENT WOULD RESULT. HE BELIEVED THAT STANDARD-OF-LIVING MUST
BE REDUCED BY CUTTING IMPORTS TO ESSENTIAL GOODS TO
LIMIT GROWTH OF FOREIGN DEBT. ISRAEL HAD IN PAST COVERED ITS CUR-
RENT ACCOUNT DEFICIT WITH BORROWING BUT THAT WAS NO LONGER
POSSIBLE GIVEN MAGNITUDE OF CAPITAL NEEDED. LOANS
WILL ACCOUNT FOR 50 PERCENT OF CAPITAL INFLOWS IN 1975 AND
WILL INCREASE FOREIGN DEBT TO DOLS 8 BILLION. ONE-THIRD OF DEBT
WAS TO WORLD JEWRY AND ANOTHER THIRD TO USG. DEBT SERVICING
WILL TOTAL DOLS 1.3 BILLION THIS YEAR OR 60 PERCENT OF NET

EXPORT EARNINGS. ACCORDING TO DAVRAT, ONLY WAY OUT OF THIS DELEMMA WAS TO REDUCE PRIVATE CONSUMPTION AND EXPAND EXPORTS IN ORDER TO DIMINISH CURRENT ACCOUNT DEFICIT.

6. PRIVATE CONSUMPTION PER CAPITA WILL NOT DECREASE THIS YEAR, ACCORDING TO DAVRAT, BUT WILL REMAIN AT THE 1974 LEVEL. OVERALL TREND IS IN RIGHT DIRECTION, WITH REAL PRIVATE CONSUMPTION PER CAPITA UP ONLY FIVE PERCENT IN 1974 COMPARED WITH NINE PERCENT IN THE FIRST NINE ONTHS OF 1973. CONSUMERS HAD BEEN SPENDING SAVINGS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TEL AV 01917 02 OF 02 011342Z

IN ORDER TO MAINTAIN STANDARD OF LIVING IN FACE OF RISING PRICES. ADDITIONAL AUSTERITY MEASURES WERE NEEDED IN ORDER TO TRANSFER RESOURCES FROM PRIVATE CONSUMPTION TO EXPORTS, DEFENSE, IMMIGRATION, SOCIAL POLICY AND DEVELOPMENT. EVEN IF PRIVATE CONSUMPTION WERE REDUCEC BY FIVE PERCENT NEXT YEAR, THE RESOURCES RELEASED WOULD BE SUFFICIENT TO COVER ONLY THE NEEDS OF THE EXPORT SECTOR. GOVT'S POLICY IS AIMED AT GENERATING MILD RECESSION: THE ALTERNATIVE IS TO EXHAUST FOREIGN EXCHANGE RESERVES. INCREASING EXPORTS IS NOT SUFFICIENT: ECONOMIC GROWTH, INVESTMENTS, AND EMPLOYMENT MUST BE FROZEN. FORTHCOMING TAX REFORM MENTS, AND EMPLOYMENT MUST BE FROZEN. FORTHCOMING TAX REFORM DOES NOT MEAN DIMINUTION OF TAX BURDEN, THAT IS, VALUE-ADDED-TAX (VAT) SHOULD COLLECT MORE MONEY THAN THE NDIRECT TAXES IT REPLACES. HOWEVER, VAT WILL BE DESIGNED TO MEET VARYING ECONOMIC SITUATIONS AND COULD BE USED EITHER TO DEFLATE OR REFLATE THE ECONOMY. END UNCLASSIFIED.

7. BEGIN LIMITED OFFICIAL USE. COMMENT. FINANCING OF HUGE SURPLUS OF IMPORTS OVER EXPORTS IN YEARS AHEAD IS INDEED THE MAJOR ECONOMIC PROBLEM FACING ISRAEL. SEVERE RESTRAINTS ON WHAT GOVT CAN DO IN TERMS OF FURTHER BELT-TIGHTENING, AS WELL AS ADDITIONAL BORROWING ABROAD, LEAVE NO ALTERNATIVE TO CONTINUED DEPENDENCE ON MASSIVE U.S. ASSISTANCE. END LIMITED OFFICIAL USE. VELIOTES

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, GOVERNMENT BUDGET, FINANCIAL CONTRIBUTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975TELAV01917
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750112-0464
From: TEL AVIV
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750492/aaaadfsd.tel
Line Count: 211
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 07 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 AUG 2003 by WorrelSW>; APPROVED <26 NOV 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ISRAEL'S CONTINUING NEED FOR MASSIVE U.S. FINANCIAL ASSISTANCE
TAGS: ECON, EAID, IS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006